

2010

ANNUAL REPORT



ISABELLA
BANK
CORPORATION

Annual Shareholder Meeting - May 3, 2011 at 5:00 p.m.

Comfort Inn & Conference Center | 2424 S. Mission St., Mt. Pleasant 48858

Investor Relations

Debra Campbell | (989) 779-6237 | 401 N. Main St., Mt. Pleasant, MI 48558
or visit www.isabellabank.com ► Investor Relations



ission Statement

To create an operating environment that will provide shareholders with sustained growth in their investment while maintaining our independence and subsidiaries autonomy.

Stock Information

Isabella Bank Corporation common stock is traded under the symbol ISBA on the OTCQB Tier of the OTC Markets Group Inc. Eletronic Interdealer Quotation System. Current stock price and availability can be obtained by contacting the financial advisors of Raymond James Financial Services located at Isabella Bank or through any other licensed broker.

For more information about Isabella Bank Corporation, visit the Investor Relations link at www.isbellabank.com.

Equal Employment Opportunity

The equal employment opportunity clauses in Section 202 of the Executive Order 11246, as amended; 38 USC 2012, Vietnam Era Veterans Readjustment Act of 1974; Section 503 of the Rehabilitation Act of 1973, as amended; relative to equal employment opportunity and implementing rules and regulations of the Secretary of Labor are adhered to and supported by Isabella Bank Corporation and its subsidiaries.





Richard J. Barz

RICHARD J. BARZ
Chief Executive Officer



David J. Maness

DAVID J. MANESS
Chairman of the Board

Year in review

On behalf of our Board, I am pleased to report that 2010 was a very successful year for Isabella Bank Corporation. Our net income for the year totaled \$9.05 million, a 16.0% increase over 2009. As a result of our solid performance, we paid total cash dividends of \$0.72 per share, a 2.85% increase when compared to the prior year. This marked the 29th consecutive year that we increased cash dividends and based upon our closing stock price of \$17.30 on December 31, 2010, our annualized dividend yield was a respectable 4.16%.

	2010	2009
Net Income	\$9.05 million	\$7.80 million
Cash Dividends	\$0.72	\$0.70

Our industry, without question, has faced numerous challenges, but the current economy has also presented opportunities for financially strong banks. This past year, we took advantage of these opportunities to grow our deposits, expand our market footprint, improve operational efficiencies and invest in technology, all while upholding our values as a community bank.

Growth and Expansion

In 2010, our in-market deposits grew by a strong 9.31%. While our interest rates and service charges are competitive, we attribute a large part of this growth to our financial strength. The recent financial crisis has caused many consumers to be more cautious, and as a result, they are requesting information about an institution's financial stability prior to opening a new account. This year, we have welcomed a number of new customers into the Isabella Bank family and are pleased that they have entrusted us with their financial needs.

Whenever we discuss growth, we are inevitably asked about expansion. This past year, we were presented with a great opportunity when a building, vacated by another financial institution, became available in a community we have long considered for expansion.

In August 2010, we opened our 25th office on North Saginaw Road in Midland. To-date the deposit growth has far exceeded our expectations and we cannot say enough about the warm hospitality of the Midland community. We look forward to a strong partnership for many years to come.

Efficiencies and Technology

Our success depends not only on our growth and expansion but also on our ability to plan for the future. Annually, we ask each member of our team to set personal goals that help us accomplish the objectives of our strategic plan. This plan identifies the goals that we wish to accomplish in the next year, as well as how they fit into our vision for the next 5 and 10 years. As a result, our employees have created several new revenue opportunities as well as decreased operational costs. These ideas have added to the overall efficiencies and profitability of our organization.

Technology also plays an important role in creating efficiencies. In 2010, we began the process of implementing document imaging, which is a way for us to electronically file our paper documents. If you have opened a new account or applied for a loan recently, you realize how many pieces of paper we print each day. Document imaging will create a central access point for employees to quickly retrieve the documents without requesting them from another office or searching a file cabinet; saving time and money.

Values and Service

For over 100 years, our employees and Directors have successfully helped us pass along the importance of our core values from one generation to the next. We value making decisions locally, providing community support, operating conservatively, and delivering superior customer service. We feel these combined values provide our customers with a partner who truly understands their financial needs, offers products and services that they can trust, and who feels as passionate about their community as they do.

We are blessed to have employees who are dedicated to upholding the values of Isabella Bank. We would like to recognize



Midland Branch - August 2010

Mrs. Joyce Gluch (Shepherd), Mr. Roger Williams (Clare), and Mrs. Deb Young (Remus) who have been promoted to Branch Officers this year. We would also like to congratulate Mr. Josh Eling (Big Rapids) and Mrs. Liz Gregus (Adjustments Department) for their promotions to Assistant Vice President and Mrs. Barb Diehm (Branch Administration) for her promotion to Senior Vice President. We would also like to recognize an employee who retired this year after sharing 42 years with us, Mrs. Kathy Walkington (Canadian Lakes). Thank you all for your contributions to our Bank.

Our Directors, like our employees, play a crucial role in helping us uphold our community bank heritage. We would like to recognize two of our Directors who retired from the Isabella Bank Corporation and Isabella Bank Boards on December 31, 2010; Mr. William Strickler and Mr. Theodore Kortes. For the past 15 years, Bill has served our Boards in a number of different roles including most recently as Chairman of the Isabella Bank Board. He brought over 50 years of experience in the oil and gas industry to our Boards as well as a true understanding of the entrepreneurial spirit of a business owner. Prior to joining our Boards, Ted served on the Greenville Community Bank Board. Ted brought over 40 years of banking experience to our Boards and understood the importance of community banks, like ours, to local economies. Thank you both for your contributions to our Bank.

We would also like to recognize an individual who has faithfully served as Chairman of the Isabella Bank Corporation Board since 2004, Mr. James Fabiano. This past May, Jim retired as Chairman of our Board, and although he continues to sit on both the Isabella Bank Corporation and Isabella Bank Boards, we would be remiss if we did not pay tribute to his contributions. His leadership has

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been instrumental in directing the growth and development of our organization. Thank you Jim for your dedication to Isabella Bank.

In May, our Boards elected Mr. David Maness to succeed Mr. Fabiano as Chairman of the Isabella Bank Corporation Board and to succeed Mr. Strickler as Chairman of the Isabella Bank Board. Dave has been a member of the Isabella Bank Board since 2003, the Isabella Bank Corporation Board since 2004, and also served as the Chairman of our internal technology company, Financial Group Information Services (FGIS), from 2004-2010. In addition to his role on our Boards, he also serves as President of Maness Petroleum, a geological and geophysical consulting services company. Dave will serve our Boards well as Chairman; he has a passion for serving our local communities, understands the importance of community banking, and continuously looks for ways in which we can improve.

The support from our shareholders, customers, employees, and communities is what has made Isabella Bank what it is today. Thank you for your continued support and faith in Isabella Bank. We look forward to seeing you at the Annual Shareholder Meeting on May 3, 2011, at 5:00 p.m. at the Comfort Inn and Conference Center in Mt. Pleasant.



Bauer Financial, Inc.

Isabella Bank has earned a 4-star excellent rating from Bauer Financial, Inc. The 4-star rating recognizes Isabella Bank among the strongest banks in the nation.



Dennis P. Angner

DENNIS P. ANGNER
President and Chief Financial Officer

Financial highlights & industry updates

2010 Financial Highlights

- ▶ Record net income of \$9.05 million
- ▶ Year-end assets of \$1.23 billion *(7.2% increase over 2009)*
- ▶ Deposit Growth of 9.31%


In 2010, Isabella Bank Corporation’s net income was \$9.05 million, an increase of \$1.25 million when compared to year-end 2009. Our net income was the second highest out of the 124 banks headquartered in the state of Michigan. Like all banks in Michigan and across the country, our earnings continue to be impacted by elevated loan charge-offs (compared to historical norms), increased FDIC insurance premiums and loan collection costs. The Corporation estimates that these factors have had a combined negative impact on earnings of approximately \$0.40 per share.

The Bank’s asset quality as of December 31, 2010 continues to be strong as evidenced by the relatively low percentage of the total loans, 0.83%, that are classified as “nonperforming.” This compares very favorably to the average of all banks in the state of Michigan at 3.13%. Below you will see a comparison between 2009 and 2010 for Isabella Bank and the Michigan peer group.

	2010	2009
Isabella Bank	0.83%	1.28%
State of MI Peer Group	3.13%	3.25%

As a result of the increased number of bank failures during the past three years, banks will continue to be charged historically high FDIC insurance premiums. FDIC insurance and the associated regulatory costs are fully funded by industry premiums and are based upon a 1 to 4 tier risk based premium assessment. A bank rated with a 1 has the lowest risk and the lowest premium while a tier 4 bank has the highest risk and the highest premium. Although Isabella Bank is currently assessed as a tier 1 bank, our premiums alone totaled \$1.25 million in 2010.

In 2010, there were several historic pieces of legislation passed into law that will have a substantial impact on all businesses, particularly on the banking industry.



On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law. We feel that the following provisions will increase health care costs for the Corporation in the short-term:

- ▶ mandates that some health care insurance benefits will be "essential" coverage for which there will be no co-pays;
- ▶ requires minimum standards for health insurance policies and removes all annual and lifetime coverage caps;
- ▶ extends insurance coverage of employees' children until age 26;
- ▶ assesses an annual tax on health insurance providers;
- ▶ imposes a 2.3% excise tax on manufacturers and importers of certain medical devices, which is expected to increase the cost of these devices by \$20 billion.

On July 10, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act makes sweeping changes in the regulation of financial institutions aimed at strengthening the sound operation of the financial services sector. Many of the provisions in the Dodd-Frank Act will not become effective until future years. Among other provisions, the Dodd-Frank Act includes the following:

- ▶ directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees for financial institutions with assets in excess of \$10 billion;
- ▶ creates a new Consumer Financial Protection Bureau that will have rulemaking and enforcement authority for a wide range of consumer protection laws affecting financial institutions;
- ▶ increases leverage and risk-based capital requirements, FDIC premiums and examination fees;

- ▶ provides for new disclosure, "say-on-pay," and other rules relating to executive compensation and corporate governance for public companies, including public financial institutions;
- ▶ permanently increases the federal deposit insurance coverage limit to \$250,000;
- ▶ provides for mortgage reform addressing a customer's ability to repay, restricts variable-rate lending, and makes more loans subject to disclosure requirements and other restrictions;
- ▶ creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity.

On a positive note, the Dodd-Frank Act changed the formula for calculating FDIC premiums in favor of smaller institutions. Starting in the third quarter of 2011, premiums will be assessed based upon total assets instead of deposits. Although this change will mean that we are assessed upon a higher base, the rate at which we are charged will be lower. This change will shift the cost of insurance from smaller banks, like ours, to approximately 20 of the largest banks. I expect that the change will save us approximately \$300,000 per year.

The legislation mentioned above will create many challenges for the financial industry. The challenge will not only be in adapting to these new rules and the costs involved, but also communicating these changes to our customers in a manner that does not disrupt the level of service they have come to expect from us. These changes are significant, but be assured, we will continue to review our operations to improve efficiencies so that we may continue to offer our products and services at an affordable price for our customers.

Peer Group Comparison

We subscribe to reports that compare the financial performance of Isabella Bank to other banks in the United States who are similar in size (\$1.0 billion-\$3.0 billion in assets). In all, there are 322 banks in our peer group. There are several key ratios that we use to monitor the strength and soundness of Isabella Bank: (1) Return on Assets; (2) Allowance for Bad Debt to Problem Loans; (3) Problem Loans; and (4) Risked Based Capital to Risk Weighted Assets.

Return on Assets (ROA)

Isabella Bank 0.96% | Peer Group 0.36%

ROA measures net income by the average asset size of the bank. Our ROA in 2010 was 0.96%, which is 2.67 times higher than our peer group. The peer group is still struggling with extensive loan losses with hopes of improvement in 2011.

Allowance for Bad Debt to Problem Loans

Isabella Bank 203% | Peer Group 62%

Allowance for Bad Debt to Problem Loans measures the amount of reserves needed for inherent losses related to nonperforming loans. We have \$2.03 in reserves for every \$1.00 of nonperforming loans, which means we have more in reserve than we have problem loans. This is considered a very safe and conservative practice. Our peer group has \$0.62 in reserves for every \$1.00 of nonperforming loans, which is substantially less in reserve to absorb future inherent losses from their problem loans. We consider our allowance for bad debt reserve balance to be appropriate to incur the inherent losses in our overall loan portfolio.

Problem Loans

Isabella Bank 0.83% | Peer Group 3.68%

Problem Loans measures the percent of loans that are over 90 days past due and placed in non-accrual because interest collection is doubtful. Our total problem loans as a percentage of loans are 0.83% compared to 3.68% for our peer group. The peer group's average is over 4.4 times higher than Isabella Bank's.

Risk Based Capital to Risk Weighted Assets

Isabella Bank 12.79% | Peer Group 14.04%

This measures the amount of capital held against risk based assets. The Bank's ratio of 12.79% is strong when compared to the required ratio of 10.0% necessary to be considered adequately capitalized under the Federal Reserve Board's risk based capital rules. The Bank continues to be profitable, well capitalized and has funds available to meet its customers' borrowing needs.



*F*inancial
Data

(Dollars in thousands except per share data)

	2010	2009	2008	2007	2006
Income Statement Data					
Total Interest Income	\$ 57,217	\$ 58,105	\$ 61,385	\$ 53,972	\$ 44,709
Net Interest Income	\$ 40,013	\$ 38,266	\$ 35,779	\$ 28,013	\$ 24,977
Provision for Loans Losses	\$ 4,857	\$ 6,093	\$ 9,500	\$ 1,211	\$ 682
Net Income	\$ 9,045	\$ 7,800	\$ 4,101	\$ 7,930	\$ 7,001

Balance Sheet Data

End of Year Assets	\$ 1,225,810	\$ 1,143,944	\$ 1,139,263	\$ 957,282	\$ 910,127
Daily Average Assets	\$ 1,182,930	\$ 1,127,634	\$ 1,113,102	\$ 925,631	\$ 800,174
Daily Average Deposits	\$ 840,392	\$ 786,714	\$ 817,041	\$ 727,762	\$ 639,046
Daily Average Loans/Net	\$ 712,272	\$ 712,965	\$ 708,434	\$ 596,739	\$ 515,539
Daily Average Equity	\$ 139,855	\$ 139,810	\$ 143,626	\$ 119,246	\$ 91,964

*Per Share Data

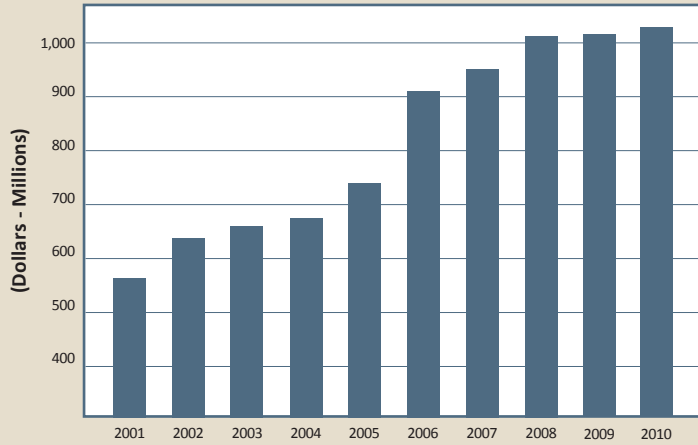
Earnings Per Share					
Basic	\$ 1.20	\$ 1.04	\$ 0.55	\$ 1.14	\$ 1.12
Diluted	\$ 1.17	\$ 1.01	\$ 0.53	\$ 1.11	\$ 1.09
Cash Dividends	\$ 0.72	\$ 0.70	\$ 0.65	\$ 0.62	\$ 0.58
Book Value (Year End)	\$ 19.23	\$ 18.69	\$ 17.89	\$ 17.58	\$ 16.61
Market Value (Year End)	\$ 17.30	\$ 18.95	\$ 25.50	\$ 40.00	\$ 40.00

Financial Ratios

Shareholders' Equity to Assets (Year End)	11.84%	12.31%	11.80%	12.86%	12.72%
Return on Average Equity	6.47%	5.58%	2.86%	6.65%	7.61%
Return on Average Tangible Equity	9.55%	8.53%	4.41%	8.54%	8.31%
Cash Dividend Payout to Net Income	59.93%	67.40%	118.82%	54.27%	53.92%
Return on Average Assets	0.76%	0.69%	0.37%	0.86%	0.87%

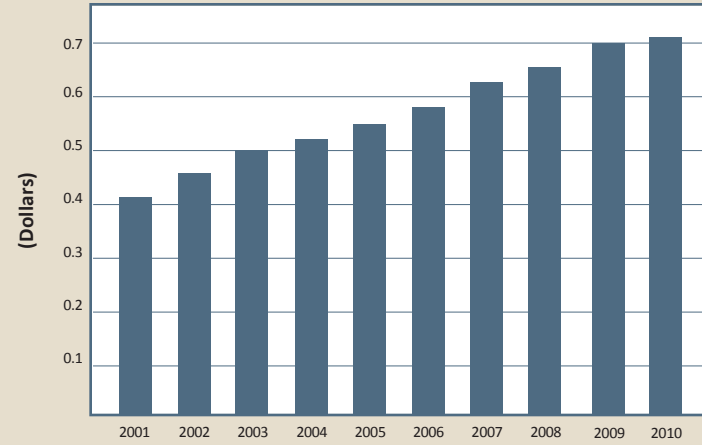
*Retroactively restated for the 10% stock dividend paid on February 29, 2008

Total Assets

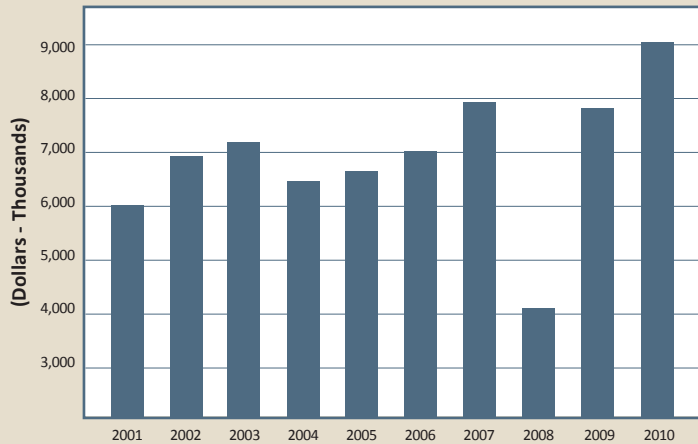


Dividends Per Share *

*Retroactively restated for the 10% Stock Dividend Paid on February 29, 2008

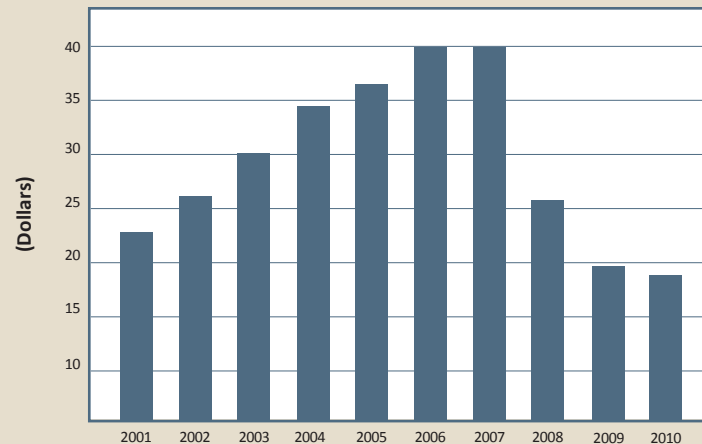


Net Income



Ending Stock Price *

*Retroactively restated for the 10% Stock Dividend Paid on February 29, 2008



B oard of Directors

DAVID J. MANESS - Chairman
President, Maness Petroleum Corporation

RICHARD J. BARZ
Chief Executive Officer, Isabella Bank Corporation

DENNIS P. ANGNER
President and Chief Financial Officer,
Isabella Bank Corporation

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Physician and Co-Owner, Central Eye Consultants

SANDRA L. CAUL
State Representative (retired)

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Chairman & Chief Executive Officer,
Fabiano Brothers, Inc.

G. CHARLES HUBSCHER
President, Hubscher and Son, Inc.

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Sales and Marketing Executive,
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President and CEO,
Greenville Community Financial Corporation (retired)

W. JOSEPH MANIFOLD, CPA
Chief Financial Officer,
Federal Broach & Machine Co.

W. MICHAEL McGUIRE
Director of the Office of the Corporate Secretary,
The Dow Chemical Company

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Owner, Bandit Industries, Inc.

WILLIAM J. STRICKLER*
President, Michiwest Energy, Inc.

DALE D. WEBURG
President, Weburg Farms, Inc.

(Board Members pictured in Left to Right Order)

* Retired December 31, 2010



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Chief Executive Officer

DENNIS P. ANGNER
President and Chief Financial Officer

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Senior Vice President

CYNTHIA J. DIEHM
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Vice President

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Vice President

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President and Chief Executive Officer

STEVEN D. PUNG
Chief Operations Officer

DAVID J. REETZ
Chief Lending Officer

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Senior Vice President

JAMES L. BINDER
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Vice President

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ROBERT K. MADSEN
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Vice President

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Vice President

PEGGY L. WHEELER
Vice President

LEO R. WICKERT
Vice President

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DAVID J. KING

WILSON C. LAUER

TIMOTHY M. MILLER

KIRK L. SMITH

GREGORY V. VARNER

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President

BRIAN K. GOWARD
Vice President

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Vice President

BARBARA K. McKENZIE
Vice President

JOHN D. RIVETT
Vice President

Farwell Division Board of Directors

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THOMAS L. KLEINHARDT

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THOMAS J. WALLACE

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Vice President

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Division Senior Lender

Greenville Division Board of Directors

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KIRKWOOD E. FABER, DDS

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ALEX KEMP

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President

KATHY J. KORSON
Vice President

DAVID W. SEPPALA
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Dr. RALPH P. CREW

LAWRENCE E. EMIG

KEVIN J. DEFEVER

JOSEPH LaFRAMBOISE

JEROME E. SCHWIND

Mecosta Division Officers

JEROME E. SCHWIND
President

Financial Group Information Services Board of Directors

DALE D. WEBURG - Chairman

DENNIS P. ANGNER

RICHARD J. BARZ

JAE A. EVANS

THOMAS L. KLEINHARDT

DAVID J. MANESS

TIMOTHY M. MILLER

STEVEN D. PUNG

JONATHAN J. WAINWRIGHT

Financial Group Information Services Officers

JONATHAN J. WAINWRIGHT
President

JULIE A. HUBER
Vice President

